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C O N F I D E N T I A L SECTION 01 OF 04 SARAJEVO 001418

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DEPARTMENT FOR EUR (JONES), EUR/SCE (HYLAND/FOOKS)

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SUBJECT: BOSNIA: SCENESETTER FOR DAS JONES' SEPTEMBER 8-9  
VISIT TO SARAJEVO

Classified By: Ambassador Charles English. Reason 1.4 (b) and (d).

11. (C) SUMMARY: You are coming to Bosnia at a time when rising ethnic nationalism, a weakened Office of High Representative (OHR) and threats by Russia to break off cooperation with its partners in the Peace Implementation Council (PIC) have brought reform to a standstill and could potentially threaten Bosnia's political stability. Municipal Elections scheduled for October 5 are further polarizing the political environment. Though Bosnia signed a Stabilization and Association Agreement (SAA) with the European Union in June, it is unclear how effectively the EU's SAA process can steer politicians toward meaningful compromise, in part because the Europeans themselves have thus far not demonstrated that they are prepared to play a proactive role here necessary to overcome ethnic differences and forge meaningful compromises. Russia has threatened to press for the closing of the Office of High Representative at the next PIC meeting in November regardless of whether or not Bosnia has fulfilled the five objectives and two conditions for closing the OHR by that time (the so-called 5 2 agenda). Bosnia was invited to participate in an Intensified Dialogue with NATO in April, but officials do not seem to understand clearly that further progress toward NATO will require political reform in the entire government and society, not just the Ministry of Defense. Despite recent efforts to improve the business and investment climate in the country, such as introduction of the value-added tax (VAT), and a streamlined corporate tax law, Bosnia still falls behind its Balkan neighbors in the race to attract foreign capital and investment. END SUMMARY

The Bosnian Serbs: Our Dodik Problem  
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12. (C) Nationalism has been on the rise in Bosnia for the last two years, a period that has been punctuated by a series of progressively more serious political crises that have raised legitimate concerns about the country's long-term political stability. Internal political tensions are likely to worsen once the October 5 municipal election campaign officially kicks off on September 5. Republika Srpska PM Milorad Dodik has been a primary culprit for Bosnia's political stalemate. He has regularly made inflammatory statements that have challenged Bosnia's sovereignty and question its territorial integrity, most recently by speculating (again) on August 28 that RS independence is a possibility if Bosniak politicians are not willing to respect his aggressively-defined redlines. At the same time, he has fueled Bosnian Serb nationalism by blocking state-building initiatives and seeking to reverse reforms. We have raised our concerns about his behavior with Dodik in clear terms on

several occasions, most recently in A/S Fried's July 18 letter. Though our warnings have generally been followed by period of rhetorical calm by Dodik, their half-life is diminishing rapidly, as Dodik's August 28 comments indicate. Dodik has been emboldened by Moscow, both through Russia's aggressive opposition to Kosovo's independence and through its recognition of South Ossetian and Abkhaz independence.

#### The Bosniaks: Our Silajdzic Problem

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13. (C) The resurgence of nationalism among Bosniaks has abetted Dodik in pursuing his agenda. This resurgence has largely been driven by Bosniak member of the Tri-Presidency Haris Silajdzic. His repeated references to the RS as a genocidal creation and to collective Serb guilt for the atrocities committed during the war, and his promotion of "one-man, one-vote" constitutional reform that would eliminate many of Dayton's ethnic protections bolster Dodik's claims that Serbs will never be accepted inside Bosnia and that the RS must consider "alternative paths." Silajdzic has also frequently refused to compromise on key reforms because, he argues, to do so would somehow "legitimize" the existence of the RS. His refusal to support a constitutional amendment that would ensure Brcko could enjoy adequate legal protection vis-a-vis the state and the entities, a 5 plus 2 condition for OHR's closure, reflects his all or nothing approach to many issues: nothing short of a completely new constitution, no matter how impractical, is acceptable. We suspect that some of Dodik's rhetorical excess has been deliberately designed to encourage Silajdzic to continue his pursuit of

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his own maximalist and confrontational agenda. In a remarkably candid public assessment, Dodik referred to Silajdzic as a "gift" for the RS.

#### The Croats: An Entity Please

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14. (C) Croat politicians feel that they suffer the most from current political arrangements. They are outnumbered by Bosniaks in the Federation entity, and the smaller units of administration where ethnic Croats have a majority (cantons) are not powerful enough to afford them a significant degree of self-rule. The heads of the two Croat parties in the ruling coalition, Dragan Covic of the Croatian Democratic Union of Bosnia and Herzegovina (HDZ BiH) and Bozo Ljubic of the Croatian Democratic Union 1990 (HDZ 1990) argue that constitutional reform must be at the top of the political agenda. Emboldened by the nationalist rhetoric coming from the Serbs and Bosniaks, the Croat political parties began pressing for changes to Dayton that amounted to creation of a third entity when they signed the Kresevo Declaration in September 2007, though until recently the leaders of the major Croat political parties have denied that this was their intention. However, at HDZ-1990's August 29 convention Ljubic publicly announced that his party would insist on a Croat-majority entity if the two entity structure is not eliminated as part of constitutional reform.

#### Weakened High Representative

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15. (C/NF) In this polarized political environment High Representative Miroslav Lajcak has been unable or unwilling to push politicians to back off their maximalist positions. The influence of the HighRep's office eroded during the tenure of Lajcak's predecessor Christian Schwarz-Schilling, who did little to control the Bosnian political scene, but under Lajcak things have become worse. According to numerous OHR staff, Lajcak felt burned by what he perceived as insufficient political support from the Quint during the crisis over his October 2007 use of the Bonn Powers, and is therefore reluctant to engage on critical issues. When Lajcak has engaged, he has often freelanced rather than

worked closely with key Ambassadors and shifted tactical gears suddenly without considering the strategic consequences. His tendency to tell his interlocutors what he thinks they want to hear has exacerbated his credibility problems. The bottom-line is that he now has little credibility among Bosnian political leaders or in the international community.

Russia Resurgent

16. (C) Russia's resurgence globally is also manifesting itself in unhelpful ways here. Although the Russians, during the February PIC meeting, signed onto the five objectives and two conditions that are required for closing the OHR, they refused to sign the July PIC communique reiterating the 5 plus 2 formula, insisting instead on a date certain for closure, and they ultimately walked out of the proceedings. We understand from Lajcak that the Russians are now threatening to call for the closure of OHR at the November PIC whether or not the conditions and objectives are met. Lajcak has told us he fears Russia might leave the PIC entirely if other members do not accede to Russian demands and that Dodik would then subsequently claim that the OHR no longer had full international backing or the right to exercise any kind of authority in the RS.

17. (C/NF) In the face of the challenges from Russia, Lajcak has stressed the importance of solidarity of the "PIC minus Russia." He is traveling to European capitals this month in what he calls an attempt to shore up support for a united front in the face of Russian obstruction (he will not be in Bosnia the week of September 8). However, we have also heard indications that Lajcak will lobby EU PIC members to water down the PIC's pre-OHR closure objectives and conditions--for example by allowing Brcko's status to be resolved with a law rather than a constitutional amendment--in order to avoid a conflict with Russia and close OHR quickly.

EU and SAA: Nice, but not Enough

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18. (C) Bosnia signed an SAA with the EU in June, but only because EU accepted a police reform deal that, in effect, required no reform at all. The signature was an important milestone. It allowed Bosnia to enter a new phase of its post-war development, but it has had little lasting impact on the country's political environment or progress on reforms despite repeated professions of faith in the "EU path" by Bosnia's political leaders. Though the SAA process is potentially a useful vehicle for compelling these politicians to compromise on reforms, thus far there is little evidence to suggest that the "pull" of Europe alone is sufficient to overcome Bosnia's deep ethnic divisions or its dysfunctional state structures. The EU has thus far not demonstrated that it is prepared to play the proactive role required to overcome these obstacles.

U.S. Support for State-Level Institutions and Bosnia's European Path

19. (C) For our part, we continue to strongly support state level institutions, particularly in the areas where we have made a heavy financial and political investment: law enforcement, judiciary, defense and security. We provided expertise and tens of millions of dollars that were essential to create such state level agencies as the Border Police, the Foreigners Affairs Agency, and the State Investigation and Protection Agency. We were the driving force behind the creation of the State Prosecutor's Office and State Court, which are charged with prosecuting war crimes and serious economic crime, organized crime and corruption: challenges that must be addressed if Bosnia is to realize its

Euro-Atlantic aspirations. With this in mind, we are supporting a request by the leaders of state-level judicial institutions to extend the international presence at the State Prosecutor's Office and State Court, but overcoming opposition from political leaders who prefer to see these institutions fail will be difficult.

¶10. (C) At the same time, we have been active in cajoling our European partners to be more active, and even aggressive, in presenting a clear and detailed list of requirements for progress on European accession. We firmly believe that the only credible requirements for change can only come from Brussels. European focus in pursuit of its own agenda has been frustratingly absent.

#### Constitutional Reform

¶11. (C) Without a basic level of autonomy and credibility, the state cannot perform the functions necessary to sustain itself, let alone drive the Euro-Atlantic integration process. Ultimately, improving the state's functionality and efficiency will require more than consolidating the state-level reforms already in place; it will require constitutional reform. There is consensus across ethnic lines on the need for constitutional change, but Serb, Bosniak and Croat constitutional visions are sharply inconsistent with -- and on some critical issues diametrically opposed to -- one another. For this reason, we continue to believe that now is not the time to launch a constitutional reform process, but political leaders, particularly Bosniaks and Croats, are likely to press us to take up the issue after the October elections. In the current political environment, Bosniak and Croat proposals to eliminate or create new entities, to transfer new competencies from the entities to the state or otherwise radically depart from Dayton are unrealistic and destabilizing. We continue to argue that a step-by step approach tied to Euro-Atlantic integration, or as the EU now puts it, "constitutional evolution not revolution," with a robust international involvement is the best way forward.

#### Economic Outlook

¶12. (C) Bosnia's economy has grown at about 5 percent per year for several years, but still has not reached pre-war levels, and Bosnia remains one of the poorest countries in Europe. Unemployment at roughly 30 percent remains a

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persistent problem--especially among young people. Despite recent efforts to improve the business and investment climate in the country, such as introduction of the value-added tax (VAT), and a streamlined corporate tax law, Bosnia and Herzegovina still falls behind in the race to attract foreign capital and investment. At the current rate, foreign direct investment (FDI) in FY2008 will lag behind investment in FY2007 by more than 50 percent. The complex regulatory and legal framework, weak judicial structures and lack of a unified economic space create serious obstacles for potential foreign investors and businesses in general. (Note: USAID's SPIRA and other projects in cooperation with the Embassy and Treasury advisors are working to streamline business registrations and to implement additional economic reforms. End note) Privatization in Bosnia and Herzegovina has also lagged, providing fewer opportunities for serious capital inflows. While the RS with the sale of Telekom Srpske to Belgrade-based Telekom Srbija in late 2006 and the sale of RS petroleum assets to Russia's Zarubyezhnyeft in March 2007 has sold its two biggest assets, in the Federation major potential privatizations such as BH Telecom and Aluminij Mostar have stalled.

#### What This Means for Us

¶13. (C) The most important meetings of your visit will be the bilateral with Dodik and the dinner for party leaders. With Dodik you will want to reinforce the messages in A/S Fried's July 18 letter, particularly that 1) there is no future for the RS outside Bosnia, and 2) significant reforms that build on but also go beyond Dayton will be required as part of the Euro-Atlantic integration process. With party leaders you will want to stress our view that only by meeting the five objectives and fulfilling the two conditions set by the PIC will there be a decision to close OHR. It would also be helpful to us if you would note Washington's support for the request from Bosnia's judicial leadership to extend the international presence at the State Court. Finally, you will want to reiterate our support for constitutional reform and commitment to playing a role in that process, but stress that we believe constitutional reform must be a step-by-step process that focuses on improving the functionality and efficiency of the state. You will want to repeat these messages at the Presidency.

¶14. (C) It is unfortunate that you will not have the opportunity to see Lajcak during this visit. It needs to be clear to Lajcak the importance Washington places on meaningful implementation of the PIC conditions and benchmarks and the need for OHR to confront challenges from local political actors to state-level institutions as well as their efforts to roll back previous reforms. It should also be clear that he will have our support to accomplish these objectives, including use of the Bonn Powers, if he deems it necessary. This is also a message that you will need to reinforce with our Quint partners in the run-up to the NovembQ.

15 (C) Finally, you will meet with Foreign Minister Alkalaj and Defense Minister Cikotic. The Alkalaj visit is really nothing more than a courtesy call. He has been a big disappointment as Foreign Minister and enjoys almost no credibility within the government or Sarajevo political circles. Cikotic remains a key player for our defense reform and NATO agendas. He can be an excellent interlocutor, though at times he makes shortsighted decisions. You will want to thank him for the Bosnian Armed Forces contribution in Iraq, underscore the importance of resolving immovable defense property, and stress the need to continue to make progress on the defense front.

ENGLISH